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SUBJECT: THE SARKOZY ECONOMIC AGENDA - REFORM OF GOODS AND SERVICES
MARKETS: "WORK MORE TO EARN MORE"

REF: PARIS 3741

Summary

¶1. (SBU) French President Nicolas Sarkozy has made goods and services market reform an important element of his plans to boost purchasing power and create a more dynamic French economy. He has announced a series of proposals to liberalize retail distribution, open up competition in goods and services markets, and deregulate a number of professions. Currently the French pay up to 13 percent more than other Europeans for the same goods. Large retailers and consumers welcome such changes; France's cherished neighborhood storekeepers and other protected sectors may be reluctant to "work more to earn more." The support of a presidential commission on economic growth headed by socialist Jacques Attali helps provide political cover for Sarkozy's agenda. This cable is one of three on the President's economic initiatives. Septels will cover fiscal and labor reform. End summary.

Greater flexibility in the retail sector

¶2. (U) The Sarkozy government plans to present a bill to the National Assembly by the end of 2007 to liberalize the relationship between retailers and suppliers, and a related bill to expand Sunday store openings. To further open the retail sector, the GOF will put forward another bill after municipal elections next spring to lift restrictions on opening or expanding supermarkets. Small shopkeepers have fought the opening of "discount stores" in France since the 1930's. French laws introduced in the 1990's (Raffarin Laws) restrict opening large scale retail outlets (partly by setting an economic needs test as determined by local officials). Current restrictions limit supermarket size and expansion to 3000 square feet which affects "big box" discount retailers.

¶3. (U) Under practices that date back decades, retailers are prohibited from selling below invoice in the name of protecting small shops. Large retailers secure below-invoice prices from suppliers through volume rebates or fees for shelf space. But these savings cannot be passed on to customers under existing "Galland" retail laws passed in 1996. The GOF proposal would incorporate the "back margins" into pricing calculations but does not go as far as laws elsewhere in Europe that ban predatory pricing but not all sales below cost. According to the Attali commission, the Raffarin and Galland laws cost French consumers 9.6 billion euros annually.

¶4. (U) Any reform that lowers prices will be welcomed by consumers. France's biggest retailers are eager to be able to set prices on brand name products. In recent years, they have been hurt by customers moving from outlets that sell a range of brand-name products, to deep discounters offering little-known brands. In response, they have expanded stocking of both store-brand and deep-discount goods. Analysts believe that reform of the Galland law will improve stores' operating margins in the near term, but

will also stimulate competition and reduce prices.

Work more to earn more, including Sundays

15. (U) Breaking with a French taboo, Sarkozy is proposing to allow stores to remain open on Sundays. He illustrates the issue by pointing to the Champs Elysee - where stores in a "tourist zone" on one side of the street are open on Sunday while those on the "non-tourist" side are not. Employers and workers from a variety of retailers regard the case for Sunday openings as a bellwether of Sarkozy's "work more to earn more" policy.

16. (SBU) Jerome Bedier, president of the French retail federation, told us that while he welcomes Sarkozy's reform agenda, the issue is a "nightmare" for retailers. Due to the panoply of sometimes conflicting laws and regulations affecting working hours and conditions, Bedier predicted that Sunday openings, while good for business, will initially be a headache for business owners. Nevertheless he believes the reform will be included in legislation this year. The Attali Commission's interim report should help improve the political environment for adoption of the measure, he said.

Opening up regulated professions?

17. (U) Sarkozy has not yet detailed proposals to liberalize laws governing professions in France, such as pharmacists, taxi drivers, nurses and notaries. Future policy in this area may be guided in part by the final recommendations of the Attali Commission. In its October 15 interim report, the Commission focused on deregulation in the real estate professions to boost property ownership rates in France. But the Commission has also taken up more controversial issues, such as the monopoly of independent pharmacies. The Commission's conclusions appear to be closely aligned with Sarkozy's

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drive for deregulation. A report commissioned by the President in 2004 when he was Minister of Finance, called for abolishing the quota system for taxi drivers, veterinarians, physiotherapists and other professions and for scrapping of "excessive" qualification requirements for accountants and other white collar professions, as well as for hairdressers, butchers, and similar trades. The report's authors continue as Sarkozy economic advisors.

18. (SBU) France has been among the staunchest opponents of EU proposals to deregulate service professions. Opposition to the so-called Bolkenstein directive on services, which included provisions to liberalize professional services, was partly responsible for France's rejection of the European Constitution in 2005. In October 2006, the EU Commission sent opinions to France, among other EU member states, requiring it to scrap nationality and ownership requirements that restrict access to a number of professions. Sarkozy's proposals are an important break from past French practice, and a move towards bringing France in line with Commission efforts to enforce the free movement of services and freedom of establishment. Sarkozy has also signaled that France will fully implement EU directives governing recognition of diplomas and professional mobility.

Comment

19. (SBU) President Sarkozy's plans to reform France's goods and services markets are similar to proposals he put forward in 2004 as Minister of Economy and Finance. The Attali Commission provides additional political and intellectual cover to move forward. The constituencies most affected by change (pharmacists, notaries, taxi drivers, etc) will appeal to French lifestyle arguments to water down the proposed reforms. Outcomes will depend on whether Sarkozy maintains his political momentum in the months to come and conversely on whether opponents succeed in uniting interests most impacted by reforms.

Stapleton